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# R.J. Reynolds Tobacco Company

## Winston-Salem, N.C.

# ANNUAL REPORT 1950

R J Reynolds
Tobacco Company

# Comparative Summary of Financial Data

## Sales, Earnings and Dividends

| | 1950 | 1949 |
|---|---|---|
| Net Sales | $759,856,001 | $746,345,301 |
| Net Earnings | 40,258,002 | 40,454,161 |
| Earnings as a percentage of Net Sales | 5.30% | 5.42% |
| Earnings per share on 750,000 shares of Preferred Stock | $ 53.68 | $ 53.94 |
| Earnings per share on 10,000,000 shares of common stocks after Preferred Stock dividends paid | 3.73 | 3.75 |
| Dividends per share on common stocks | 2.00 | 2.00 |
| Dividends on Preferred Stock | 2,934,000 | 2,934,000 |
| Dividends on common stocks | 19,714,748 | 19,660,886 |

## Financial Position at Year-End

| | | |
|---|---|---|
| Total Assets | $553,997,157 | $528,529,031 |
| Current Assets | 518,122,816 | 493,678,789 |
| Current Liabilities | 108,331,155 | 95,472,284 |
| Net Current Assets—Working Capital | 409,791,661 | 398,206,505 |
| Real Estate, Machinery and Equipment—net | 31,611,618 | 31,153,255 |
| Funded Debt | 140,000,000 | 145,000,000 |
| Capital Stock | 175,000,000 | 175,000,000 |
| Earnings Retained for requirements of the business | 130,666,002 | 113,056,747 |

# R. J. REYNOLDS TOBACCO COMPANY
## Winston-Salem, North Carolina

TO THE STOCKHOLDERS:

In the past year, sales of the Company amounted to $759,856,001, a record high, being $13,510,700 greater than sales for 1949 when the previous high was reached. Net earnings for 1950 were $40,258,002 as against $40,454,161 for 1949, and were equivalent to 5.30% of sales. For 1950 the net earnings on each of the 10,000,000 issued shares of common stocks amounted to $3.73, compared with $3.75 in 1949.

Shipments of the Company's cigarette brands, CAMEL and CAVALIER, were greater in 1950 than in the preceding year. Smoking and chewing tobacco shipments were somewhat less than in 1949.

The accrual for the year for taxes based on income was $37,720,890 or $9,249,725 greater than such accrual for 1949. Of this increase about $3,040,000 was due to the recent increase in rates for Federal income taxes and about $2,890,000 to the new Federal excess profits tax.

**Dividends** Dividends paid on the common stocks in 1950 totaled $2.00 a share, the same as in 1949. Four quarterly dividends, each in the amount of 50¢, were paid, whereas in 1949 there were four quarterly dividends of 45¢ each and a year-end dividend of 20¢. In the letter to stockholders accompanying the Annual Report for 1949, it was pointed out that in increasing the quarterly dividend amount the directors were motivated by the consideration that the stockholders quite generally prefer to receive their dividends for the year on a quarterly basis.

**Leaf Tobacco Prices** Average market prices for flue-cured and burley tobacco reached new highs in 1950. Flue-cured tobacco of the 1950 crop sold at an average price that was 16% greater than such price for the 1949 crop and 224% greater than such price for the 1940 crop. Sale of the 1950 burley tobacco crop has not yet been completed, but the larger part of the crop had been sold prior to January 15, 1951 and brought an average price per pound 9% greater than the average price at which the 1949 crop was sold and 203% greater than the average price for the 1940 crop.

**Current Assets and Liabilities** At the year-end, the total current assets, including inventories, were $518,122,816 and the total current liabilities were $108,331,155, making a ratio of $4.78 of current assets for each $1.00 of current liabilities. Inventories, consisting principally of leaf tobaccos, amounted to $475,836,138, compared with $454,015,671 at the end of 1949. Of the increase in inventories, by far the largest part was in leaf tobacco, reflecting increases in the quantities as well as increased costs of purchases in 1950.

**Short-Term Borrowings** Since 1942, a large part of the Company's purchases of leaf tobacco has been financed through short-term borrowings from banks under credit agreements. Such loans are generally at their maximum at the end of the burley tobacco marketing season in February and at their minimum before the opening of the flue-cured tobacco marketing season in July. Again, as was the case in 1949, the Company had no such loans outstanding for a part of the summer.

In September, the Company entered into a new Credit Agreement with sixteen of its depositary banks. This agreement makes it possible for the Company to borrow from the lending banks, under short-term notes, up to $150,000,000 at any one time. The agreement runs through June, 1955 and replaces the agreement made in 1946. At the end of 1950, the loans outstanding under this new Credit Agreement and those still outstanding under the earlier agreement amounted to $56,500,000.

**Fixed and Other Assets** In 1950 additions to the Company's plant and equipment were made at a cost of $2,623,362 and depreciation was charged in the amount of $2,042,106. At the end of the year, the net amount at which the Company's real estate, machinery and equipment were carried was $31,611,618, compared with $31,153,255 at the end of 1949. The valuable brands, trade-marks, and good will of the Company were carried as previously at the nominal amount of $1.

**Employees** The efficient and harmonious efforts of the Company's employees throughout all their varied fields of activities and levels of responsibility had much to do with the success of the operations of the Company through the year. The directors take this opportunity to record their appreciation for the splendid achievements of the employees generally.

At the year-end the Company had 11,637 regular employees and 4,645 seasonal employees on its payroll. The percentage of regular employees leaving the Company's employment for any reason, including death and retirement, was the lowest in many years and was greatly below such percentage for industry as a whole as well as for the tobacco industry. About 54% of the regular employees have been in the continuous employ of the Company for ten or more years.

During the past year, general wage increases were granted and the Vacation Plan was liberalized. The employee benefit plans, including the Group Life, Health and Accident Insurance Plan, the Employees' Retirement Plan and the Hospital and Surgical Service Plan, have been continued.

The Company has 439 stockholders for every 100 employees, both regular and seasonal. On the basis of the Company's physical plant and inventories, at the end of 1950 the Company had an average investment of over $32,400 for each job furnished employees, both regular and seasonal. If regular employees only were considered, this amount would be about $45,400. These figures illustrate well the importance in the American free enterprise system of the function of stockholders and investors in furnishing jobs to workers.

**Stockholders** There were 71,478 stockholders of record at the year-end, of whom 59,685 held common stocks and 11,793 held Preferred Stock. These figures do not, of course, include the large number of persons who are owners of the Company's stocks who have the stock registered in the names of nominees of banking institutions or of brokers. In a survey conducted during the year with respect only to the Company's New Class B Common Stock, it appeared that there were about 12,000 persons who owned that class of stock and who had their holdings carried in the names of nominees or brokers. In addition to those having direct ownership in the Company's stocks, there are a vast number of people who are indirectly interested in the Company by virtue either of their interest in holdings of the Company's shares by fiduciaries or of their ownership of securities or policies issued by numerous investment trusts, corporations or insurance companies that hold the Company's stocks.

Through December 31, 1950 a total of 230,201 shares of Common Stock had been exchanged for New Class B Common Stock pursuant to the Exchange Option accorded holders of Common Stock under the amendment to the Company's Certificate of Incorporation effective on June 29, 1949. Under this Option, Common Stock is exchangeable on the basis of one share of Common Stock for one and one-fourth shares of New Class B Common Stock.

**Seventy-fifth Anniversary** The business of the Company was founded by Mr. R. J. Reynolds in 1875. The year 1950 thus marked the Seventy-fifth Anniversary of the founding of the business. There is included elsewhere in this report a brief historical review of the development of the business during the past seventy-five years.

The international developments that have occurred in recent months, with the consequent developing restrictions on normal activities and increases in Federal taxes, are raising many difficult problems for the Company in common with most of the nation's industries. These nation-wide problems will be mastered only by the resoluteness of all who are devoted to the cause of economic and political freedom, and the management of the Company shares with business of the country and citizens generally a determination to meet the new difficulties as they arise to the end that freedom may be preserved and peace restored.

By order of the Board of Directors,

Chairman. President.

January 23, 1951.

## ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash | $ 16,266,419.39 | |
| Accounts receivable (net) for merchandise sold | 26,020,259.50 | |
| Leaf tobacco, supplies, manufactured product, etc.—at average cost | 475,836,137.97 | |
| TOTAL CURRENT ASSETS | | $518,122,816.86 |
| REAL ESTATE, MACHINERY AND EQUIPMENT—at cost | 52,316,730.46 | |
| Less depreciation, obsolescence, etc. | 20,705,111.75 | |
| NET REAL ESTATE, MACHINERY AND EQUIPMENT | | 31,611,618.71 |
| **OTHER ASSETS:** | | |
| Investments in non-competitive companies | 25,000.00 | |
| Sundry receivables and deposits | 2,079,547.12 | |
| Brands, trade-marks and good will | 1.00 | |
| Prepaid expenses and deferred charges | 2,158,173.92 | |
| TOTAL OTHER ASSETS | | 4,262,722.04 |
| | | $553,997,157.61 |

BACCO COMPANY
December 31, 1950

## LIABILITIES

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 7,631,806.18 | |
| Notes payable | 56,500,000.00 | |
| Funded debt due within one year | 5,000,000.00 | |
| Accrued Federal and State taxes | 38,146,623.39 | |
| Sundry accrued accounts | 1,052,726.13 | |
| TOTAL CURRENT LIABILITIES | | $108,331,155.70 |
| FUNDED DEBT (Footnote A): | | |
| 2½% Promissory Notes (due 1952-1972) | 82,000,000.00 | |
| 3% Debentures, due October 1, 1973 | 58,000,000.00 | |
| TOTAL FUNDED DEBT | | 140,000,000.00 |
| CAPITAL AND EARNINGS RETAINED: | | |
| Preferred Stock—Par $100: | | |
| Authorized and issued 750,000 shares | | |
| 3.60% Series | 49,000,000.00 | |
| 4.50% Series | 26,000,000.00 | |
| Common Stock—Par $10: | | |
| Authorized and issued 569,799 shares | 5,697,990.00 | |
| New Class B Common Stock— | | |
| Par $10 (Footnote B): | | |
| Authorized 15,000,000 shares | | |
| Issued 9,430,201 shares | 94,302,010.00 | |
| | 175,000,000.00 | |
| Earnings Retained for requirements of the business (Footnote A) | 130,666,001.91 | |
| TOTAL CAPITAL AND EARNINGS RETAINED | | 305,666,001.91 |
| | | $553,997,157.61 |

# Statement of Earnings

## Year Ended December 31, 1950

| | | |
|---|---|---|
| NET SALES..... | | $759,856,001.08 |
| OTHER INCOME: | | |
| Interest, dividends and sundry... | | 134,289.32 |
| Net tax refund for prior years.... | | 744,596.14 |
| TOTAL INCOME..... | | 760,734,886.54 |
| LESS: | | |
| Cost of goods sold and other charges including selling and general expenses, but exclusive of items below..... | $673,435,490.42 | |
| Provision for depreciation and obsolescence..... | 2,042,106.62 | |
| Interest charges..... | 4,761,458.66 | |
| Debenture expense amortization. | 40,147.71 | |
| Provision for participation in profits under Article XII of By-Laws payable to 1,874 officers and employees..... | 2,476,790.80 | |
| Provision for Federal and State taxes on income..... | 37,720,889.70 | |
| TOTAL INCOME DEDUCTIONS... | | 720,476,883.91 |
| NET EARNINGS FOR YEAR..... | | $ 40,258,002.63 |
| Dividends paid on Preferred Stock. | | $ 2,934,000.00 |
| NET EARNINGS APPLICABLE TO COMMON STOCKS..... | | 37,324,002.63 |

# Statement of Earnings Retained

## Year Ended December 31, 1950

| | | |
|---|---|---|
| EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at beginning of year | | $113,056,747.28 |
| ADD: | | |
| Net Earnings for year | | 40,258,002.63 |
| | | 153,314,749.91 |
| DEDUCT: | | |
| Cash dividends on— | | |
| Preferred Stock | | |
| 3.60% Series | $ 1,764,000.00 | |
| 4.50% Series | 1,170,000.00 | |
| Common stocks at $2.00 per share, consisting of four quarterly dividends of 50c each | 19,714,748.00 | 22,648,748.00 |
| EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at end of year (Footnote A) | | $130,666,001.91 |

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Footnote A: The aggregate principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1951-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

So long as either of its 2½% Promissory Notes or any of its 3% Debentures remain outstanding the Company is obligated not to declare dividends (other than stock dividends) and not to make payment on account of purchase, redemption or retirement of any shares of its stock to an extent where such dividend or payment plus the aggregate of all such prior dividends and payments made from January 1, 1946, shall exceed an amount equal to the Net Income of the Company from January 1, 1946, to and including the date of such declaration or payment plus $15,000,000, but such limitation does not restrict declaration or payment of dividends on Preferred Stock. At December 31, 1950, the part of Earnings Retained not affected by this restriction was $82,658,733.12.

Footnote B: Of the authorized but unissued shares of New Class B Common Stock, 569,799 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,430,201 shares of issued New Class B Common Stock, 142,449¾ shares are held for exchange pursuant to said Exchange Option to Holders of Common Stock.

# Report of Independent Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY,
ITS DIRECTORS AND STOCKHOLDERS:

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1950, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

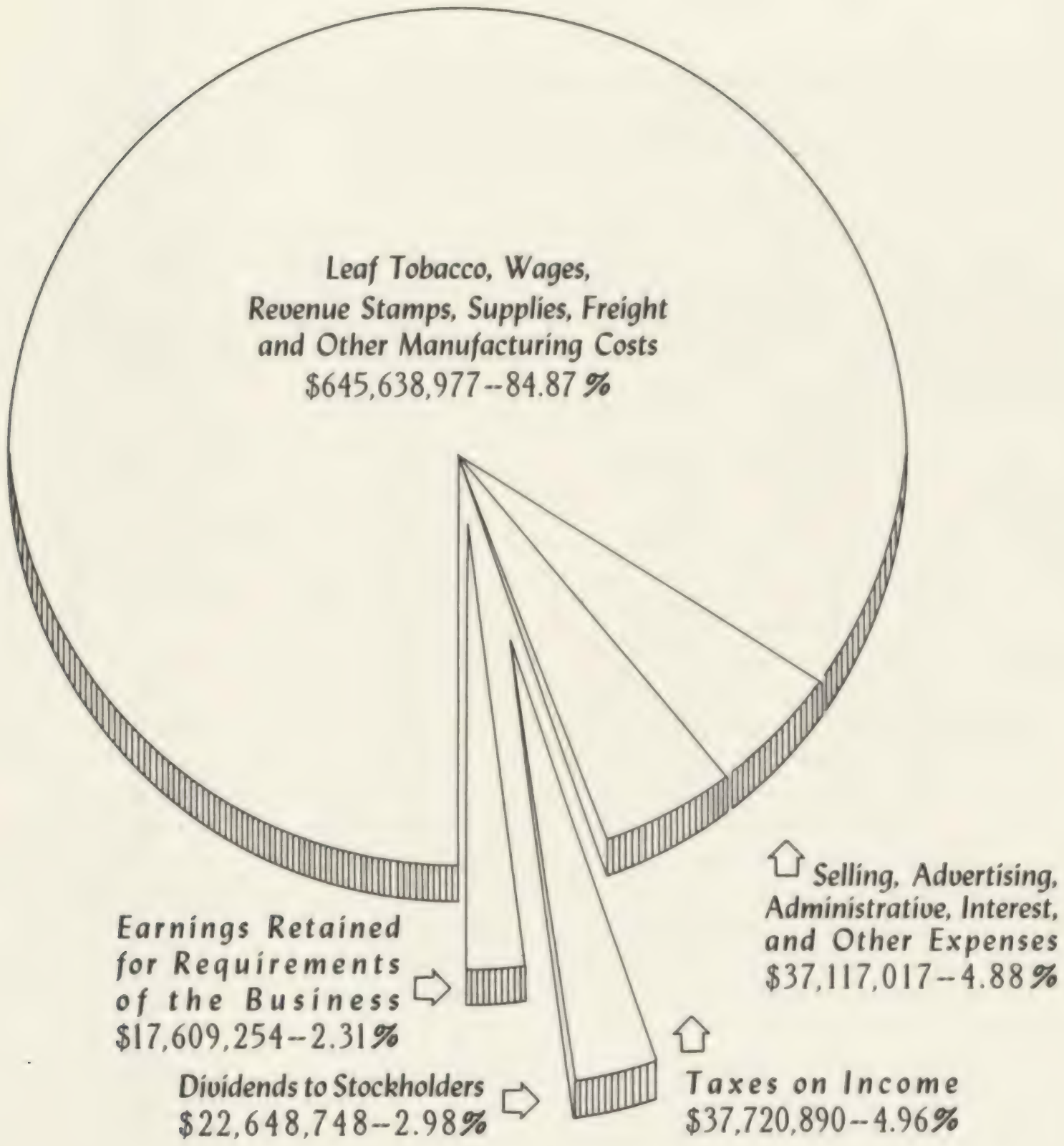
In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1950, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants.

January 22, 1951.

# Disposition of the Company's Total Income in 1950



# SEVENTY-FIVE YEARS IN REVIEW

In the year 1875, on a site now occupied by one of the many buildings of the Company, Richard Joshua Reynolds, who was then twenty-five years of age, opened his first tobacco manufacturing plant. It was a very small two-story building but its cost of $2,400 loomed large to young Reynolds as the total assets available to him for his new business venture were only about $7,400. From this modest beginning developed the business that was to become one of the foremost in the tobacco industry—the present R. J. Reynolds Tobacco Company.

Prior to setting out in business on his own, R. J. Reynolds had lived on his father's tobacco farm in Patrick County, Virginia. As was quite usual for tobacco farmers in those days, R. J. Reynolds' father not only raised tobacco but manufactured it into chewing tobacco and peddled his product by wagon over the neighboring countryside. During his early years, R. J. Reynolds worked on his father's farm and in his father's chewing tobacco business and so acquired considerable knowledge not only as to leaf tobacco but as to manufacturing and distribution problems. This knowledge he put to good use when he commenced his own business.

Of necessity, the business started on a very small scale. Less than fifty people were employed, substantially all on a seasonal basis and the operations were performed mainly by hand. Gradually, the business expanded. To provide for such expansion, most of the earnings were reinvested in the business. By the middle 'Eighties, sales had increased to a point where they amounted to about $200,000 a year.

In 1888, in order to provide for further growth, R. J. Reynolds entered into a partnership with his brother W. N. Reynolds and Henry Roan under the name of R. J. Reynolds & Company. Continued growth made it advisable to incorporate the business. This was done early in 1890 when the North Carolina corporation of R. J. Reynolds Tobacco Company was formed with an initial capital of $190,000. Sales continued to increase and by the middle 'Nineties amounted to about $500,000 annually. By 1899, the growth of the business had been such that it was thought advisable to obtain additional capital and to do so the present Company was formed. It was incorporated in New Jersey on April 3, 1899 and the business and assets of the North Carolina corporation were transferred to it. The initial capital amounted to $2,100,000.

Until 1895, the business was devoted exclusively to the manufacture and sale of chewing tobaccos. In 1895, the manufacture of smoking tobacco was commenced and one of the brands introduced in that year, OUR ADVERTISER, is still manufactured by the Company. While the volume of smoking tobacco gradually increased, chewing tobaccos continued to account for by far the largest portion of the Company's business. From 1900 through 1906, chewing tobaccos made up over 98% of the Company's sales.

In 1907, the Company developed, under a new patented process, its now famous PRINCE ALBERT Smoking Tobacco. At that time it was not the general practice of the industry to advertise or promote any brand of tobacco on a nationwide basis. Realizing the benefits that would flow to the Company if PRINCE ALBERT Smoking Tobacco could be popularized on a national basis, the management determined to advertise the brand extensively and to make it available to consumers throughout the country. The high quality of the brand was so appealing to smokers and the efforts used in promoting its sale were so successful that in a relatively few years PRINCE ALBERT became, and still remains, the largest selling brand of smoking tobacco in the United States. Largely due to this, by 1914, almost one-half of the Company's sales consisted of smoking tobaccos. This did not mean that the chewing tobacco business had declined. On the contrary, chewing tobacco sales in 1914 were over three times as great as in 1900.

During the early years of the 1900's, and prior thereto, cigarettes were a relatively minor tobacco product. At that time, most of the cigarettes sold were made either of all Turkish or all flue-cured tobaccos, although there were some containing blends of Turkish and flue-cured tobaccos. Noting the steadily increasing consumption of cigarettes, the Company decided to enter the cigarette field but wanted a new type of high quality product that would appeal to consumers and be relatively inexpensive. As a result of about two years of research and experimentation with countless blends, the Company's tobacco experts finally developed a blend which they thought would meet these requirements—a blend that was new and entirely different from any then on the market. This blend, in addition to including Turkish and flue-cured tobaccos, also included burley tobaccos and, subsequently, Maryland tobaccos. Thus was born the CAMEL Cigarette which in a short time not only led to an enormous expansion of the Company's business but also revolutionized the entire cigarette industry.

CAMEL Cigarettes were first introduced to smokers in 1913. Practically all cigarette brands were then promoted on a limited regional basis and relied on such things as premiums and coupons, or pictures or flags enclosed in the package, to stimulate sales. The Company decided to push the sale of CAMELS without the use of such extraneous sales stimuli as then were in vogue, and, in a bold break with precedent, determined to promote the new brand on a national basis relying solely on the quality of the product and advertising designed to make that quality known and appreciated by the public. This method of promotion was almost as great an innovation in the cigarette industry of that day as was the blend of CAMEL Cigarettes. To emphasize the quality of the tobaccos contained in CAMEL Cigarettes, from the beginning, there has been imprinted on the package the statement: "Don't look for premiums or coupons, as the cost of the tobaccos blended in CAMEL Cigarettes prohibits the use of them."

CAMEL Cigarettes were so well received that by 1916 over 45% of the Company's sales consisted of cigarettes. By 1919 this figure had increased to about 70% and in recent years has been over 90%. The phenomenal success of CAMEL Cigarettes was such that competitors were not long in introducing cigarettes made of blends of tobaccos as closely similar to the blend contained in CAMELS as they could make them.

Today, in addition to CAMEL Cigarettes and PRINCE ALBERT Smoking Tobacco, the Company manufactures CAVALIER Cigarettes, the new king-size or long cigarette introduced in 1949, GEORGE WASHINGTON, OUR ADVERTISER, STUD, TOP and certain other brands of smoking tobaccos and 42 brands of chewing tobaccos, including the brands of DAYS WORK, BROWN'S MULE, APPLE SUN CURED and CASH VALUE.

The growth of the Company during the past 50 years is illustrated by the following figures which give the Company's total assets and sales at ten-year intervals commencing with the year 1900.

| Year | Total Assets (at year-end) | Sales |
|---|---|---|
| 1900 | $ 5,091,492 | $ 3,580,007 |
| 1910 | 11,689,485 | 12,037,302 |
| 1920 | 107,106,368 | 195,312,210 |
| 1930 | 168,377,069 | 266,320,751 |
| 1940 | 181,067,013 | 292,039,070 |
| 1950 | 553,997,157 | 759,856,001 |

This, in brief, is the story of seventy-five years of growth. From a small business owned by one farseeing man seventy-five years ago, there has developed a business now owned by more than 70,000 stockholders located all over the United States and in many foreign countries. From a business that started with a capital of about $7,400, there has developed a business that now has assets of over $500,000,000. From a business that started with sales in the first year of a few thousand dollars, there has developed a business whose annual sales are now in excess of $700,000,000. From a business that served a relatively few consumers, there has developed a business that serves millions of consumers located throughout the United States and in many far corners of the world. From a business that had but a handful of employees, there has developed a business that now gives regular employment to over 11,500 persons and seasonal employment to about 4,500 more. Such growth could not have been possible without never ceasing effort to supply better products to more people at less cost.

# *Principal Brands of the Company*

*Cigarettes*

CAMEL CIGARETTES

CAVALIER CIGARETTES

*Smoking Tobaccos*

PRINCE ALBERT

GEORGE WASHINGTON • OUR ADVERTISER

STUD • TOP

*Chewing Tobaccos*

BROWN'S MULE • DAYS WORK

APPLE SUN CURED

REYNOLDS' NATURAL LEAF

REYNOLDS' SUN CURED

CUP • SCHNAPPS • HONEY CUT

STRATER'S NAT. LEAF TWIST

WINESAP • MICKY TWIST

CASH VALUE • TOP

# Board of Directors

JAS. A. GRAY.....*Chairman Board of Directors*

JOHN C. WHITAKER.....*President*

R. C. HABERKERN.....*Vice-President*

P. FRANK HANES.....*Vice-President*

E. A. DARR.....*Vice-President*

H. N. HARDY.....*Vice-President*

BOWMAN GRAY.....*Vice-President*

F. S. HILL.....*Treasurer*

W. J. CONRAD.....*Secretary*

W. T. SMITHER.....*Manager Advertising Department*

R. G. VALLANDINGHAM.....*Superintendent of Leaf Buying*

H. H. RAMM.....*Solicitor and Assistant to Chairman of Board*

H. S. KIRK.....*Superintendent of Manufacturing*

S. M. SCOTT.....*Comptroller*

S. B. HANES, JR.....*Superintendent of Leaf Processing*

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TRANSFER AGENTS

The Chase National Bank
of the City of New York,
*11 Broad Street,*
*New York, N. Y.*

The First National Bank
of Jersey City,
*1 Exchange Place,*
*Jersey City, N. J.*

REGISTRAR

Central Hanover Bank and Trust Company,
*70 Broadway, New York, N. Y.*